The

Loan Arranger

Fall 2001

Municipal Facilities Section - Environmental Assistance Division Michigan Department of Environmental Quality

GRANTS v. LOANS:

What's the best way to meet Michigan's wastewater infrastructure needs?

by Russell J. Harding

It has been said that competition brings out the best in people. When it comes to serving as a public official in municipal government, whether you are elected or appointed, competition for your time and energy is fierce!

Some issues compete for an even scarcer commodity -your community's money. I would venture to guess that for most of you one of the toughest of those competitors, an issue that takes an inordinate amount of your time and effort, and stands to demand a significant monetary investment, is your community's wastewater system.

There are some good explanations why wastewater collection and treatment is garnering so much attention lately. The implementation of Michigan's Combined Sewer Overflow Control Program is well under way. Considerable efforts are also being expended to address sanitary sewer overflow problems. As these programs move forward, it is also becoming increasingly evident that huge amounts of money will be needed just to adequately maintain the extensive and aging wastewater infrastructure that exists in Michigan. All three of these demands are being felt against a backdrop of a heightened awareness of the importance of protecting Michigan's water resources and the public health of its citizens.

Just how much money will have to be invested to meet these needs?

The 1996 Federal Clean Water Needs Survey estimated Michigan communities would need to spend \$4.9 billion over 20 years on their wastewater systems. Managing the Cost of Clean Water: An Assessment of Michigan's Sewer Infrastructure Needs, published in 2000 by Clean Water Michigan, estimates these costs between \$2.7 billion and \$5.8 billion. A report recently released by the

Southeast Michigan Council of Governments (SEMCOG) estimates that over a 30-year period, needs in just the seven-county SEMCOG area will range between \$5.7 billion and \$10.1 billion to rehabilitate and upgrade existing wastewater systems. None of these estimates include the on-going cost of basic operation and maintenance.

Where will the money come from to meet these staggering needs?

Since 1989 local officials have usually sought financing for wastewater system improvements from the following sources:

- open market bonds which, like any borrowing, are backed by user fees, special assessments, and/or tax revenues;
- below-market-rate loan financing from the State Revolving Fund;
- grant and loan assistance from other federal programs such as Rural Development; and
- special line-item appropriations from the federal government in the form of grants that nearly always require a substantial local match.



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How can the state and federal government best assist local units of government in financing wastewater system improvements <u>and</u> continue Michigan's impressive trend of improving water quality?

That is the most important question. It is generally accepted that the most effective financial assistance program is one that maximizes the number of communities helped, and provides enough financial assistance to make local projects "affordable" to the ratepayers and citizens who will have to foot the bill.

State and federal agencies have tried a number of wastewater financial assistance approaches over the years, and after careful consideration of the pros and cons of these, I strongly believe the State Revolving Fund option is superior to the grant approach. There are a number of reasons for this:

- The SRF has more than ten years of proven track record and is a well-established and functioning program. Any "new" grant program will require the creation of yet another level of bureaucratic structure/ authority.
- State Revolving Fund assistance is streamlined, with a minimum of federal requirements. There is a real cost to the community to meet the various federal crosscutting requirements that accompany any federal grant.
- 3. SRF assistance is substantial, and makes a real difference in the cost of a project. Remember, a low-interest SRF loan is for the **whole** project, versus a grant, which funds only a portion of the project. The balance of the grant-funded project must be financed at market rates. As a result, an SRF loan has a high "grant equivalency." For example, a 2 percent low-interest loan from the SRF, at a time when market rates are at 6 percent, is equivalent to a 30 percent grant.
- 4. The SRF dollar can be "stretched" to provide more assistance to more communities, sooner, than other assistance approaches such as grants. For example, in the last 13 years Michigan has provided \$1.5 billion in low-interest loans, from only \$927 million in federal and state match monies.
- The SRF does in fact "revolve," assuring continued financial assistance well into the future, unlike grant funding mechanisms, which provide assistance only once.
- The SRF can address affordability concerns by providing special, lower-interest loans to hardship communities. With ample program capitalization, Michigan could dramatically reduce the SRF interest rates for all communities.

 The SRF provides critical flexibility to the states to ensure that specific state needs are addressed in the most efficient fashion.

Where do we go from here?

Clearly, federal and state financial assistance to communities to address wastewater infrastructure needs must increase if we are going to adequately address the water pollution and public health concerns of our communities. The key to successfully meeting communities' needs in Michigan, as well as in other states, is to champion a higher level of federal capitalization of the SRF, with states assuring the accompanying match. Governor Engler has pledged to assure state match dollars will be available to meet every available federal SRF dollar.

However, federal funding has leveled off. From fiscal years 1998 through 2001, the annual federal appropriation has been \$1.35 billion. The last administration attempted to reduce that amount by \$500 million in fiscal year 2001. I worked closely with Governor Engler and Michigan's congressional delegation to convince Congress to restore that \$500 million and assure the full \$1.3 billion was available to communities for wastewater needs.

Continued federal funding of the SRF at this level would allow Michigan to award about \$225 million/year in loan commitments. Unfortunately, the "demand" for SRF assistance far exceeds that amount. This gap will only continue to grow as our systems age and new collection/ treatment challenges surface. Also, there is considerable discussion in Washington now to direct limited federal funds toward grants instead of the SRF. If this occurs, even fewer needs will be met.

Although we have taken great strides in Michigan in recent years, the task of meeting our needs in the area of wastewater infrastructure remains a daunting one. Reauthorization of Title VI of the Clean Water Act would provide the needed budget focus for the SRF, and increased federal appropriations would send the right message that our wastewater infrastructure and our nation's water resources continue to be a national priority. A fully funded, robust SRF is essential if Michigan communities are going to be able to afford to make the critically needed improvements to our wastewater infrastructure. I look forward to working closely with members of the Michigan Municipal League in making this a reality.

Russell J. Harding is the director of the Michigan Department of Environmental Quality. This is a reprint of an article he wrote for the August issue of the Michigan Municipal Review, the official magazine of the Michigan Municipal League.

HARDSHIP GRANT PROGRAM 2001 Update: Two More Small Communities Receive Funding Commitments



The August 2000 partnership between the United States Department of Agriculture, Rural Development (RD), and the Michigan Department of Environmental Quality (DEQ) to provide grants to qualifying communities for planning and design services on wastewater projects has now made initial obligations to two more communities: **Sherman Township** in Keweenaw County for \$35,860, and **St. Ignace Township** in Mackinac County for \$199,000. The initial obligations were based on the estimated costs for engineering services to plan and design wastewater projects in these two communities.

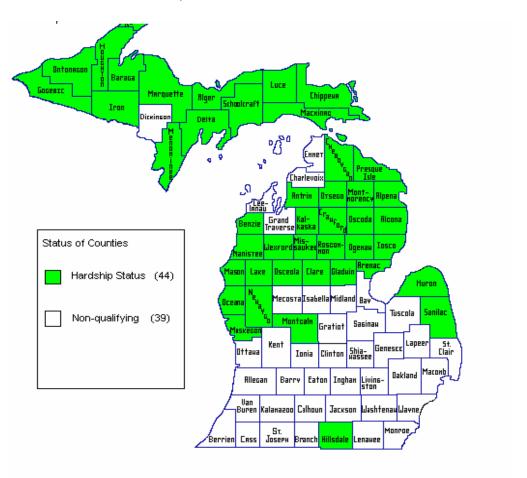
To be eligible for a Hardship Grant, a community must:

- 1. have a population of 3,000 persons or less;
- 2. be located in a county with a per capita income which is 80 percent or less of the national average as determined by the last available U.S. Census:
- 3. be located in a county with an average unemployment rate which exceeds the national average by one percentage point or more; and
- 4. have no existing centralized collection and treatment system.

Using the most current income and unemployment data available, the adjacent map shows the qualifying counties for fiscal year 2002.

In addition to meeting the population, employment, income, and existing system criteria, eligible communities must first receive an initial obligation of grant/loan funds from RD for construction of a wastewater system project. After the proposed project's construction contract(s) has been awarded and municipal bonds have been sold to finance the loan portion of the project activities, the DEQ will process payment to the community for the costs incurred for engineering services to plan and design the wastewater project.

The Hardship Grant fund was originally authorized with approximately \$2,400,000 available to qualifying communities, on a first come-first



serve basis. As of this date, \$468,760 has been obligated, leaving a balance of \$1,931,240 available for Hardship Grants. The program will end when this balance is exhausted, so if your small community is planning a wastewater project which is to be financed, at least in part, by the RD Wastewater Program, please contact Mr. Paul Miller, at 517-324-5100, or Email at: paul.miller@mi.usda.gov

You may also contact Mr. Chip Heckathorn, Chief of the Municipal Facilities Section, Environmental Assistance Division, DEQ, at 517-373-4725, or Email at: heckathc@state.mi.us

Funded Projects for Fiscal Year 2001

Another Fiscal Year has come to a close, with \$255,615,000 awarded to ten wastewater projects from the State Revolving Fund (SRF), and \$26,710,000 awarded to ten projects from the Drinking Water Revolving Fund (DWRF). To date, the SRF has assisted 184 projects with loans totaling \$1.53 billion. In the DWRF to date, \$158.9 million has been awarded to 62 projects.

Following are the communities receiving loans in Fiscal Year 2001, with a brief description of the project and the loan amounts:

SRF Projects

Intra	Co	Drain.	Board	for	Lake
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St. Clair, Macomb Co.	Relief sewers, rehab, sewer separation, RTB upgrades, Segment 1A	\$20,670,000
Lansing	CSO sewer separation, Subarea 013 South, Segment 13	\$10,860,000
Port Huron	Sewer separation, Segment 4	\$ 8,120,000
Bay City	Wastewater treatment plant and retention treatment basin upgrade	\$42,435,000
Three Oaks	Sewer replacement and rehab	\$ 2,155,000
Detroit	Connor Creek retention treatment basin (partial)	\$82,200,000
Port Huron	CSO sewer separation, Item 34	\$ 640,000
Trenton	Replace sewers to correct SSOs, Segment 3	\$ 1,005,000
Monroe County, Carleton	Upgrade and expand the wastewater treatment plant (refinance)	\$ 5,330,000
George W. Kuhn Drain. Dist.	12 Towns Retention/Treatment Basin Improvements, Segment 2	\$82,200,000

DWRF Projects

Chelsea	New production well, transmission main, softening treatment, Segment 1	I \$6,110,000
Lake Linden	New well, ground storage, replace mains	\$1,200,000
Sunfield	Elevated storage tank, looping, remove hydro tank, repair	\$ 880,000
Hudson	Replace pumps/motors, new iron removal facility	\$1,770,000
Milford	Filter media replacement, upgrade/replace storage tank, Phase I	\$1,905,000
Sault Ste. Marie	Replace mains, looping, Segment E (partial)	\$1,800,000
Flint	Upgrade and expand the water treatment plant, Segment 3	\$9,480,000
Blissfield	Install nitrate removal equipment	\$ 750,000
Muir	New wells, elevated storage tank, replace mains (partial)	\$1,850,000
Nashville	New and replacement mains, WTP improvements, standby generator	\$ 965,000

Fiscal Year 2002 Funds

We are still waiting for the federal appropriation for the State Revolving Fund and Drinking Water Revolving Fund, before we can establish the Fiscal Year 2002 Fundable Range. As soon we know how much money we will have available, we will post the information on our Section web site. The web address is www.deg.state.mi.us/ead/mfsect/

Davis Bacon Update

In the Winter 2001 edition of <u>The Loan Arranger</u>, notification was provided that the prevailing wage requirements of the Davis Bacon Act would be reimposed in the State Revolving Fund. The reimposition was to be implemented under provisions of a

January 17, 2001 Settlement Agreement between the EPA and the Building and Construction Trades Department of the AFL-CIO.

It now appears that Davis Bacon requirements will **NOT** apply. We were informed in June that the EPA has reconsidered its decision and will not implement any terms of the settlement agreement. Although this may foster an extended legal battle between the EPA and the AFL-CIO, SRF recipients will not be required to pay prevailing wage rates. EPA's reversal is expected to be published in the Federal Register shortly.



The Time is NOW to Prepare for a Loan in Fiscal Year 2003

The following Reverse Time Line is a valuable tool to show the basic sequencing of project plan preparation and provide a sense of the time needed to complete the process. The dates specified in the Time Line are flexible with the exception of the Project Plan Submittal Date, and are intended to assist you in the planning process.

	DWRF	SRF
The Project Plan must be received by the Environmental Assistance Divi-		
sion, Michigan Department of Environmental Quality:		
Project Plan Submittal Date	May 1	July 1
If the council meets on the first and third Thursdays of each month:	On or about	On or about
Resolution of Project Plan Adoption	April 15	June 15
The final Project Plan must be available prior to the council meeting:	On or about	On or about
Project Plan completed and available for public display	April 14	June 14
To allow at least one week to incorporate public comments:	On or about	On or about
Public Hearing held on draft Project Plan	April 8	June 8
To provide the mandatory 30 day notice for the Public Hearing:	On or about	On or about
Public Hearing notice on the draft Project Plan is published	March 9	May 9
To provide at least one week for incorporating MDEQ comments on the draft		
Project Plan:	On or about	On or about
Draft Project Plan is completed	March 1	May 1
To provide MDEQ staff with an opportunity to review and comment on the		
draft plan:	On or about	On or about
Submit draft Project Plan to the MDEQ	February 1	April 1
Assume minimum* of three months to complete the draft Project Plan:	On or about	On or about
Council authorizes the engineering work	November 1	January 1
To ensure you are on the right track and to facilitate approval of the Project		
Plan:	On or about	On or about
Preplanning conference with the community/consultant and the MDEQ	October 1	December 1
To initiate the Project Planning process:	On or about	On or about
Council/Board decision to seek DWRF or SRF assistance	September 15	November 15

^{*}The time necessary to complete a project plan varies greatly with the scope of the problem and size of the system being studied. Work may include research and some preliminary design; pilot testing; environmental agency contacts; analyses/evaluations; historical information; surveys; public involvement; rate structure development; mapping; etc.

The earlier you contact staff of the Municipal Facilities Section, Environmental Assistance Division, Michigan Department of Environmental Quality, the more likely the project plan will be accepted and approvable upon submittal. We have guidance booklets available on Securing Financial Assistance through the DWRF or SRF, along with Project Plan Preparation Guidance. Our phone number is 517-373-2161.

Please Make a Note of It

In mid-November, the Environmental Assistance Division, along with the rest of the central staff of the MDEQ, will be moving into our new office building, *Constitution Hall.* The address is 525 West Allegan, Lansing, MI 48913. **However, our mailing address will remain the same (P.O. Box 30457, Lansing, MI 48909-7957).** Our phone numbers will also remain the same.

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